Statement of Jim Green

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Mr. Chairman and members of the Committee, I am Jim Green, President & CEO of Kemps LLC, a Saint-Paul, Minnesota based company that makes and markets milk, ice cream, cottage cheese, sour cream, dips and yogurt. Kemps is a wholly-owned subsidiary of H.P. Hood, LLC, one of the largest dairy companies in America.

Thank you for the opportunity to participate in this hearing and offer my perspective about our nation's dairy industry. I have been in the dairy business my entire life, starting with a family owned operation in York, Pennsylvania. Today, I have the privilege of working at Kemps and chairing the International Dairy Foods Association (IDFA) and the International Ice Cream Association (IICA).

Mr. Chairman, the long term prosperity of our dairy industry depends on reasonable policies that ensure a viable domestic milk production and allow all segments of the industry to benefit from selling more dairy products here at home and abroad. Meeting these objectives may sound simple; but outdated policies stand in the way of markets working most effectively and a legacy of short term "fixes" to address temporary farm price declines are keeping these opportunities out of reach. We are a vastly different dairy industry today and we require vastly different dairy policies to help us succeed.

U.S dairy policies have been altered very little since they were created in the 1930's and 40's despite years of structural change to our industry. Seventy years ago, milk was used principally for fluid consumption, markets were concentrated locally and many dairy operations were a small part of diversified farms. Fast forward seventy years, and consumption of cheese, not fluid milk, is the major use for farm milk. US dairy products are marketed nationally and globally, milk is produced efficiently in areas not considered dairy country in the 1940's, and most U.S. dairy farms are highly specialized operations. In fact, 50% of all U.S. milk production today comes from the 4% of dairy farms with 500 or more milk cows, compared to the 1950's when 93% of the milk came from farms with less than 50 cows. While dramatic shifts in production, manufacturing and consumption have occurred, most of the policies enacted in the 1930’s and 40's have gone largely untouched. Although the basic structure of U.S. dairy policy remains rooted in a 1940's mindset, Congress has layered on new government policies along the way leading to unintended and undesirable consequences.

Mr. Chairman, the outmoded dairy policies of today are preventing U.S. dairy producers and processors from taking full advantage of new opportunities here and abroad. Dairy processors across the country support a safety net for dairy farmers. However, we believe the current set of programs is failing the industry and consumers. Dairy policies must change if we have any hope of becoming the leading world supplier of high quality, competitive dairy products. In theory, the process of getting milk from the cow to consumers should be simple, but the reality of current government milk pricing regulations and support programs is as far away from simple as you can get. As the attached chart shows, the complex system can truly be called Byzantine. I will attempt to illustrate some of the failings of existing dairy programs in my testimony today by starting with the oldest, the Federal Milk Marketing Orders.

Federal Milk Marketing Orders

The intent of the Federal Milk Marketing Order (FMMO) system when Congress created it in 1937 was to ensure the availability of an adequate supply of high quality farm milk to meet consumer needs for fluid milk beverages. The primary elements of this system are classifying farm milk according to the products it is used to make, setting minimum prices for each class of milk, and pooling the receipts from all milk processors in a marketing area so that each dairy producer receives the same weighted average price. I would like to pause here and point out that no other agriculture commodity has a classified pricing system today. The system was designed to solve problems that existed in the 1930's but do not exist today. More concerning is the fact that experts say this system contributes directly to ever declining per capita consumption of fluid milk due to its higher regulated price, and exacerbates regional differences in farm milk prices.

Let me explain why this system is so outdated. Under federal order classified pricing, the highest minimum price is set for Class I milk used for beverage consumption, and successively lower minimum prices are set for Class II (yogurt, ice cream, and other "soft" products), Class III (cheese), and Class IV (butter and dry milk powder). Producers in a federal order area are paid a "blend price", which is the weighted averaged combination of the class prices paid in their marketing area. This classified pricing scheme was aimed at providing an incentive to produce and process high quality or, what is called, "Grade A" milk. This may have been necessary in 1937 when less than 40% of all farm milk was Grade A. But for the last 10 years, more than 99% of all milk produced in the U.S. is Grade A, and that will not change given our strict food safety standards and consumer demands. Clearly, the simple and laudable goal of the 1930's to ensure a sufficient supply of Grade A milk to serve all consumer needs for fluid milk products has been met by the marketplace and this complex scheme has outlived its usefulness.

Mr. Chairman, did you know that USDA assigns every one of the 3,067 counties in the U.S. with its own Class I minimum price? This regional pricing of Class I milk is another complicating facet of federal orders. However, technological advancements in refrigeration, transportation and distribution have completely changed the world and getting fresh products from farms to consumers over vast distances is now commonplace. There are now national brands of milk, as well as most other dairy products, that have coast to coast distribution and marketing. Companies like Kemps are striving to serve this national marketplace in spite of the obstacles created by this outdated federal pricing system.

One consequence of this complex price regulation is regional distortions in farm milk prices. An area such as Florida, for example, with the highest Class I minimum price and the highest percentage of Class I milk use (over 85%) has a greater dollar value to share among its producers. Conversely, areas such as the Central and Upper Midwest orders where there is a lower Class I minimum price and a much greater percentage of farm milk used to make cheese see very little gain from classified pricing and pooling.

These differences were exacerbated by changes made in the Federal Milk Marketing Order program as a result of the 1996 Farm Bill which increased the minimum base price used to calculate the Class I milk price and maintained the status quo regional differential paid on top of that base. These regional distortions built into the regulations -- whether they are price enhancing or depressing -- should be eliminated. Markets can better sort out prices needed to match supply with demand than government regulations.

Contrary to its original intent in the 1930's, the system's emphasis on a higher regulated Class I minimum price is actually hurting consumption of fluid milk products in the U.S. Since 1975, dairy farmers have increased farm milk production by more than 50%, an increase of over 60 billion pounds of milk. During the same period, the population in the United States increased by over 40%. Unfortunately, total fluid milk sales increased by less than 0.1%. In fact, only eight million more pounds of fluid milk are sold today than in 1975. Continuing to mandate a higher price for the dairy product experiencing the greatest decline in per capita consumption is not helping our dairy industry.

Congress has tried to address the problems with the current system over the years. In 1985 and 1996, Congress attempted to alter the operations of federal milk marketing orders, but these actions only increased regional differences in regulated milk prices, fostering regional dairy divisiveness which continues today. In the 1996 Farm Bill, Congress assigned USDA the technically demanding task of deciding which federal order regulations to change. However, after a three year process, Congress intervened and overturned some, but not all, of USDA's proposed changes. Consequently, there are larger distortions in regional farm milk price relationships now than had ever occurred previously and regional divisiveness prevails.

The resulting federal milk marketing order system keeps the dairy industry at a competitive disadvantage in today's marketplace. Seventy years ago, milk was unrivaled as the beverage of choice. Today, milk competes with bottled water, fruit juices, soft drinks, teas, sport and energy drinks; none of which are subject to such government-run classified pricing schemes. Globally, only America and Canada still maintain rigid milk price setting regulations while our competitors, like New Zealand and Australia, have ended such regulations. Even emerging international dairy markets, such as Russia, China and India have avoided the "American model." Ironically, these socialist countries have freer dairy markets than we do. These facts are all clear indications that we need to change the way we do business in America.

We need a system that is more market-oriented. <u>Congress should begin the transition by limiting USDA's interference in manufacturers' business decisions by streamlining the rigid and vastly complex process used to amend federal milk marketing orders</u>. This process dictates most of the parameters under which the dairy industry is forced to operate and has become inflexible and unresponsive to on-going structural changes in the industry. As a result, not only are the rules governing every aspect of dairy pricing out of touch with reality, but USDA is creating regulations that force many companies to make business decisions based on government regulations instead of market realities. This situation is potentially crippling to our industry.

The most recent example of this frustrating system is USDA's failure to update much needed cost adjustments in federal order pricing formulas in a timely fashion. Last year, dairy cooperatives and private companies came together to petition USDA for an emergency hearing to try to get a simple update of cost data used to calculate "make allowances" -- adjustments for the cost of turning raw milk into a finished dairy product. The current make allowances were set using cost data from 1997-1999. In January, 2006, USDA conducted four days of hearings on this very narrow issue. Cost information was provided at the hearing from precisely the same sources as had been used to establish the current make allowances. Despite the clear need for action to update these formulas, USDA has inexplicably delayed a decision indefinitely.

Because of the classified pricing scheme, dairy manufacturers are dependent on USDA for urgent relief and every month of delay means manufacturers of cheese, dry whey, butter and nonfat dry milk are losing at least $26 million due to the failure to update the make allowances. Congress certainly never intended to threaten the economic viability of the U.S. dairy industry by forcing manufacturers to lose money on every pound of cheese or other product made when it approved the creation of make allowances. Dairy manufacturers have asked USDA to provide some relief through an interim update of costs included in these price formulas. Unfortunately, this is one of many examples of how this Depression Era system is panning out to be one of the most disorderly, disruptive and disjointed schemes ever foisted on an industry.

So long as the federal milk marketing order system is allowed to exist, the process for making decisions should be streamlined and clear and timely deadlines for action imposed. Such steps begin the transition to a more responsive system and prepare dairy producers, processors and cooperatives for a time when markets, not government regulations, will drive decision-making.

Dairy Price Support Program

Another dairy program that inhibits innovation and growth is the dairy price support program, which dates back to the 1949 Farm Bill. The program is intended to be a safety net for dairy producers by requiring USDA's Commodity Credit Corporation (CCC) to maintain the price of milk used for manufactured dairy products at a national average of $9.90 per hundred weight. The CCC attempts to achieve this goal by purchasing nonfat dry milk, butter, and cheese at established prices. These purchased commodities are then stored, sold or donated. Between 2000 and 2004, the federal government spent an average of $517 million a year maintaining the dairy price support program.

Once again, dairy is the only commodity with this type of system. According to Office of Management and Budget's recent evaluation of the program, the dairy price support program maintains milk prices above the mandated support price, but is inefficient because the expenditures continue at times when manufacturing milk prices are well above support.

Congress voted to phase out the dairy price support program in 1996 because of high budget costs and its limited utility for actually assisting farmers. At that time, the industry supported this phase out to occur by December 31, 1999, and be replaced with a non-recourse loan program to provide an ongoing safety net. This historic step was undone, however, as legislators extended the program several times until the 2002 Farm Bill, when the price support program was reinstated and the non-recourse loan program eliminated.

But the past performance of this program has not validated its continued existence and Congress should once again question whether this program needs to exist. For example, beginning in 2000 (after the program was no longer supposed to exist), USDA purchases of nonfat dry milk created a literal mountain of government-owned milk powder, and forced USDA to create new market distorting programs to dispose of this surplus. The nonfat dry milk disposal programs may have finally eliminated the mountain of government stocks, but they wreaked havoc on dairy markets. For example, USDA attempted to help livestock producers during times of financial stress by providing nonfat dry milk for feed, but this move devastated a long standing market for dry whey products, also used for animal feed. The unintended consequence of this nonfat dry milk give-away program was lower market prices for whey, which led to lower farm milk prices overall - the very result the dairy price support program was designed to prevent.

USDA has tried to control costs on its own with only minimal success. In June 2001, USDA adjusted the purchase prices for nonfat dry milk and butter under the dairy price support program, but this adjustment was not enough to bring the program fully inline with market conditions, and another so-called "tilt" adjustment was announced in November 2002. Despite these steps, USDA still spent $1.3 billion in 2002-2004 to purchase surplus nonfat dry milk and they did so at a time of rebounding farm milk prices. Congress should put rules in place to govern government expenditures under this program.

The program was intended to be a safety net for dairy producers, but over time, it has become a program that encourages continued production of certain products, particularly nonfat dry milk, instead of allowing market signals to drive production to more valuable dairy proteins that enjoy growing demand in a wide variety of products. The Office of Management and Budget reached this conclusion in its February 2005 assessment of the dairy price support program. In its report, OMB found that "the price support program has resulted in large, costly stocks of skim milk powder, and has contributed to an oversupply of dairy capacity in certain regions and in certain dairy product categories, discouraging private investment in dairy products that are currently imported (such as [milk protein concentrates]). Other agricultural support programs demonstrate ability to support income and production capacity with fewer market distortions and less cost." This evaluation was echoed by the International Trade Commission (ITC). In a May 2004 report to Congress, the ITC found that "U.S. government support for SMP [skim milk powder] reduces the incentives to produce MPC and casein in the United States." The ITC went on to say that "U.S. production of these products is limited, and likely to remain limited, so long as the current Federal Milk Marketing Order and Dairy Price Support Program prices remain in effect."

The bottom line is that the U.S. is not a world leader in the production of value-added dairy proteins like milk protein concentrate and casein because the federal dairy price support program makes it more profitable for companies to sell nonfat dry milk powder to USDA than to invest in technology to make milk proteins demanded by the market. And, until Congress rectifies this situation, the U.S. will not be able to compete adequately in today's global dairy trade.

I applaud the Bush Administration for taking the first step in recognizing that the dairy price support program needs to change. In the 2006 and 2007 Bush Administration budget proposals, the President sent Congress legislative language designed to minimize the negative impacts of the dairy price support program on both dairy markets and government outlays. I strongly encourage you to consider this modest change in the program as a first step to reducing the program's market distorting effects. The Congressional Budget Office estimates this small adjustment will save taxpayers nearly a quarter of a billion dollars over five years in unnecessary government expenditures. We believe the Administration's proposal to administer the program more efficiently is surely the minimum that can be done to bring more discipline to the program.

Milk Income Loss Contract Program

The third program designed by Congress to support dairy producers is the Milk Income Loss Contract (MILC) program. This program does not date back to the 1930s and 40s, but instead is one of the new government dairy programs layered on top of federal orders and the dairy price support program. MILC is a direct payment program which calculates a payment rate based on the difference between a target price and the market price for farm milk and pays producers when the market prices falls below the target. This payment rate is then multiplied by the milk production sold from each farm up to a payment limit to determine the monthly subsidy check written by USDA. The program resembles other federal agriculture direct payment programs.

However, like all programs in dairy, this program is unique and unfortunately not ideal. Congress never intended this program to last. It was put in place as a transition from the failed Northeast Interstate Dairy Compact. Congress recognized early on how expensive the MILC program would be by only authorizing payments between December 2001 and September 2005 when it was created in the 2002 Farm Bill. With the inclusion of MILC in the Budget Reconciliation bill earlier this year, MILC supporters secured an extension of the program from October 2005 to September 2007, while nearly every other commodity program was cut.

I applaud you, Mr. Chairman, for having this hearing, as Congress has never held one hearing or conducted one in-depth examination of the MILC program. If it had, you would have found that the MILC program is expected to cost nearly three times more than originally estimated by the Congressional Budget Office. At a time when lawmakers are being asked to make tough choices to cut funding for USDA feeding and commodity support programs in the next Farm Bill, Congress again will be asked to extend this program and it should think twice before doing so.

In a comprehensive October 2004 study of dairy programs, USDA reported that MILC conflicts with the dairy price support program and actually decreases milk prices paid to producers. The two programs simply cannot coexist effectively. According to USDA, without the MILC program, "the remaining dairy programs raise the all-milk price (the price paid to farmers) by 4%, compared to about 1% with MILC, on average over five years." The bottom line is that continuing the MILC program keeps farm milk prices lower for longer periods of time. Through September 2005, USDA reported over $2 billion in MILC payments were made to dairy producers. During this same period, USDA also spent $1.5 billion purchasing dairy products, mostly nonfat dry milk, under the dairy price support program. The Congressional Budget Office estimates that the two-year extension of the MILC program through September 2007 will cost an additional $1 billion.

As you look at the future of this program, Mr. Chairman, I would urge you to recognize that the MILC program is not a true, national safety net but one that has resulted in costly government outlays and fanned regional divisions, pitting dairy producers against dairy producers. First, Congress set the target price well above the average milk price in recent years. So, MILC acts more like an income enhancement program than a true safety net program. For example, USDA made MILC payments to dairy producers during four months in 2004 (January - April), a year in which farm milk prices reached record levels. Second, Congress mandated a very strict payment limit provision, so that only farm milk sales up to 2.4 million pounds of milk are eligible to receive payments. In months when payments are made, estimates are that, on average, less than 45% of all U.S. farm milk production is eligible to receive a payment due to the low production cap.

However, the greatest dilemma is the inherent conflict between the MILC program and the dairy price support program. The government, through the MILC program, pays some dairy farmers to produce more milk, and then turns around through the dairy price support program and buys the excess milk in the form of nonfat dry milk, butter and cheese -- essentially paying twice for the same milk. USDA reported this fact in a 2004 report, in which it noted: "When the market price has fallen toward the price support safety net and thus is calling for an adjustment in supply, the results are partially muted by the MILC program, which, by providing production-linked funds to milk producers, may encourage production and retard the supply adjustment. The result is that milk prices stay lower longer than they otherwise would, increasingly the likelihood of larger CCC purchases, and raising costs for both programs." By allowing these two conflicting dairy subsidy programs to operate simultaneously, the federal government prevents markets from clearing properly, artificially interferes with the commercial marketplace and does very little to help dairy farmers. Mr. Chairman, I think one of your greatest challenges in the Farm Bill will be to reconcile these two programs and eliminate the less effective of the two.

<u>Dairy Export Incentive Program</u>

As we look to reconcile the conflicts in our domestic program, we cannot forget that we sell U.S. agriculture commodities in a global marketplace. The U.S. dairy industry had developed a significant export market when support prices were maintained at market clearing levels. In the 1986 Farm Bill, the Dairy Export Incentive Program or DEIP was created to make the U.S. dairy industry competitive with subsidized exports from other countries, but in particular the European Union.

It is important that Congress take a look at the DEIP program to ensure that government interventions such as DEIP are managed to achieve their export market goals without causing significant distortions in domestic markets. For instance, over 40 million pounds of butter were exported under DEIP in the second half of 1997 creating a severe shortage in our domestic market in the summer and fall of 1998 forcing much higher prices for many US dairy products using high butterfat ingredients such as ice cream. Although the law requires the Secretary to give consideration to the impact of using DEIP exports on the domestic market, its use has nevertheless driven up domestic commodity prices by a significant amount on several occasions.

I now want to touch on two programs in dairy that you should be aware of - one that should not be enacted and one that must be enacted.

<u>Dairy Import Assessment</u>

In 2002, Congress included a provision in the Farm Bill to extend an assessment used to fund domestic generic promotion activities to any dairy product imported into the United States. The Farm Bill provision also mandated that administration of the import assessment must be consistent with exiting international trade obligations. Since 1984, U.S. dairy farmers have elected to fund a generic dairy promotion program by voluntarily assessing themselves $0.15 per hundredweight of milk sold to be used to promote consumption of fluid milk and other dairy products in the United States.

After passage, USDA and the U.S. Trade Representative determined that implementing the assessment language was not possible without breaching U.S. obligations under the World Trade Organization. Congress should repeal the 2002 language and look for other ways to help promote the consumption of dairy products.

<u>Dairy Forward Pricing Pilot Program</u>

As we have discussed, the price of milk has been a central focus of many dairy policy decisions. <u>We believe Congress can better help all dairy farmers manage the price they receive for their milk by re-enacting the Dairy Forward Contracting Pilot Program</u>. I appreciate the opportunity today to discuss the benefits of this program with you.

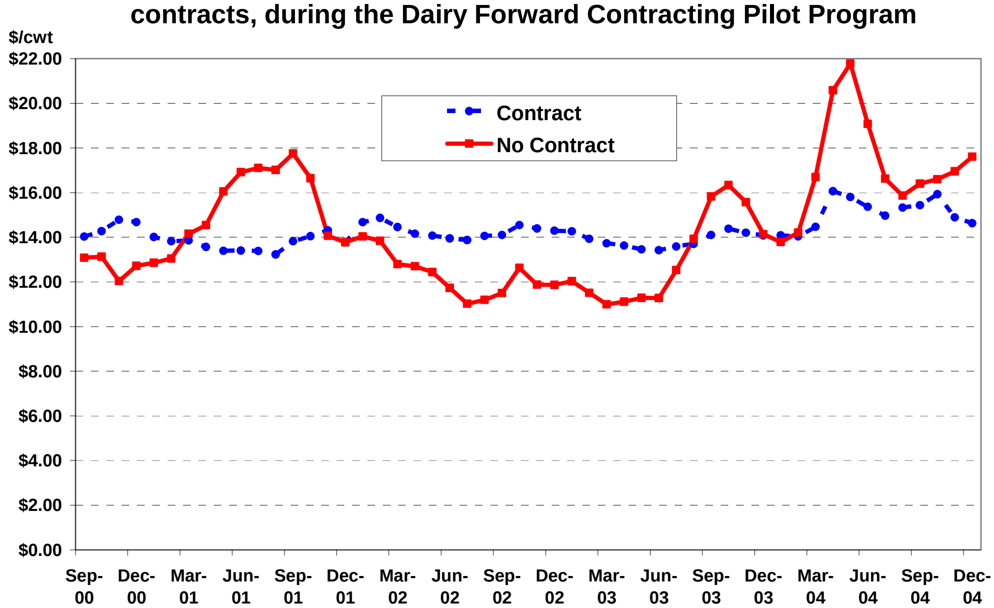
The Dairy Forward Contracting Pilot Program existed from 2000-2004 and allowed independent milk producers and cooperatives to negotiate a mutually agreeable price with processors for Class II, III, and IV milk. After the program expired and prior to its existence, dairy cooperatives and their producer members were the only dairy businesses allowed to negotiate a mutually agreed upon price that may or may not be based on the milk marketing order minimum price.

We believe, like in other agriculture industries, all farmers should have the right to forward contract. USDA reported the positive effects of the pilot program and supported legislation to convert the successful pilot into a permanent program. According to the 2002 USDA report, the pilot program achieved its primary objective as a risk management tool for farmers by creating greater price stability for producers who contracted their milk than those who did not.

As you know, Mr. Chairman, the real test of a risk management tool is how well it helps reduce price volatility. In this regard, the pilot program was an undisputed success. Dairy farmers across the country forward contract their input costs. They should be able to forward contract their milk. Many who belong to cooperatives are still taking advantage of this important risk management tool, and we think everyone in the dairy industry should have that right, too.

As a risk management tool, dairy forward contracting should be evaluated by looking at its ability to reduce price volatility over time. As the following chart shows, dairy farmers with forward contracts under this pilot program received milk prices ranging from $13.23 to $16.06; a range of less than $3.00 per hundredweight. Had these farmers not used this risk management tool, the milk price they received during this period would have varied from $11.00 to $21.80, an enormously volatile range of $10.80 per hundredweight.

Milk prices received by farmers, both with and without forward contracts, during the Dairy Forward Contracting Pilot Program



Source: USDA, AMS Dairy Forward Pricing Pilot Program: Information for the Complete Program Periods, September 2000 through December 2004.

Over the four year period, all dairy farmers whether they belonged to a cooperative or not had unencumbered access to this popular risk management tool. As you know, forward contracting is the risk management tool most frequently used by farmers outside the dairy sector. A majority of farmers use forward contracting to lock in the prices they receive for cotton, corn and wheat. Dairy farmers often utilize forward contracts to lock in feed, fuel and other input costs. Unfortunately, since this successful program was allowed to expire, independent dairy farmers no longer have the ability to use this tool like their counterparts who market their milk through cooperatives.

Some argue that if this program is made permanent it will cause the Federal Milk Marketing Orders to collapse. While opponents of the program might wish that to be the case, this is simply incorrect. The federal order system did not crumble during the years the pilot program existed. These same naysayers may also argue that processors who forward contracted are not required to participate in the Federal order pooling requirements but USDA rules governing this program clearly state that participating processors were required to pay into the producer fund or "pool" just like other regulated processors. We believe reinstating this program is about leveling the playing field. This program gives producers and processors the ability to hold their future in their own hands and not rely on government programs or arcane regulations to ensure their livelihood. Importantly, this program would provide a valuable tool for the industry with <u>no government costs.</u>

Congress should restore the dairy forward contracting program and level the playing field by making this tool available to all dairy producers and processors who use milk to manufacture dairy products, such as cheese, yogurt and ice cream.

<u>**Other Programs Available for Dairy Producers**</u>

When considering overall government support of dairy producers, it is important to remember that other programs besides direct commodity assistance programs provide benefits to dairy producers. Conservation, environmental and animal health programs help reduce costs and enable farm improvements for dairy producers. Other assistance, like disaster relief, provides immediate help in times of crisis. As you wrestle with the multiple layers of dairy subsidy programs, I urge you to consider those programs aimed at the entire farming community that also benefits dairy producers. These programs can provide benefits to dairy farmers far beyond the limitations of direct payments, price supports or classified pricing schemes because they directly address pressing environmental, conservation and animal health issues. Here are some of the specific programs used by dairy producers:

<u>**Conservation & Environment**</u>

Environmental Quality Incentive Program (EQIP) makes funds available to dairy operators to apply practices related to waste handling and nutrient reduction to surface and ground water resources. Since the 2002 farm bill, 60 percent of this program’s fund must go to animal agriculture – including dairy.

Conservation Technical Assistance (CTA) is a voluntary program that provides technical assistance and tools to help people conserve, maintain, and improve their natural resources. Dairy farmers use it to manage fertilizer use of manure, control soil erosion, and other management practices.

Conservation Security Program (CSP) offers payments for good environmental practices. In the case of dairy, it applies to livestock feeding and handling areas, especially with regard to leaks in pipelines, manure storage, or transfer facilities and proper disposal of livestock mortalities.

Agricultural Management Assistance (AMA) program which provides assistance for a variety of activities related to farm management was expanded. Agricultural Management Assistance (AMA) provides cost share assistance to agricultural producers to voluntarily address issues such as water management, water quality, and erosion control by incorporating conservation into their farming operations. Producers in certain "underserved" states may even use funds from this program for economic and price risk management activities.

Conservation Reserve Program (CRP) pays rental rates on land set aside for conservation purposes. Dairy farms use the program to offset the costs of creating buffer zones, maintaining riparian areas, and establishing grass filter strips especially where streams and other water resources are potentially impaired by cattle.

Wildlife Habitat Incentive Program (WHIP) is a voluntary program for people who want to develop and improve wildlife habitat primarily on private land. Through WHIP, technical assistance and up to 75 percent cost-share assistance to establish and improve fish and wildlife habitat is offered. Dairy farms are eligible.

According to USDA, $376.5 million in conservation payments were paid to dairy producers in 2004. We urge Congress to continue encouraging dairy producers to take advantage of these programs as a more suitable way to support and sustain our dairy producing community.

Emergency Assistance

As a whole, the dairy processing industry believes our government should help farming communities in times of need. According to the Library of Congress, "32 appropriations, authorization, or farm disaster acts added approximately $54.4 billion in supplemental spending" to support farm income. Dairy farmers are eligible for funds in these payments. In some instances, there are express set-aside amounts for dairy producers, as shown below:

Legislation	Dairy Provision
1998 Supplemental Appropriations and Rescissions Act	$4 million for the Livestock Indemnity Program; and $6.8 million for dairy farmer disaster payments.
Omnibus Appropriations Act 1999	$3.057 billion (of a total $5.8 billion package) in "market loss payments" made expressly to "grain, cotton and dairy farmers" in response to low farm commodity prices.
Agricultural, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, FY2000	$125 million for dairy producers and a one year extension of the dairy price support program.
Agricultural, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, FY2001	$675 million in income assistance payments to dairy farmers;
Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005	$10 million for dairy production losses and spoilage caused by a 2004 hurricane;

A $4.2 billion disaster relief package was also recently included in the Senate's 2007 Agriculture Appropriations bill; it ear-marks $147 million for dairy farmers. ***Livestock Compensation Program*** (LCP) was implemented by USDA in 2002 and 2003. Under the LCP, USDA made payments to all producers of beef, dairy, sheep, and goats in any county that was declared a disaster area by the Secretary between January 1, 2001, and February 20, 2003, regardless of the individual producer's loss experience. The program was not specifically authorized by Congress but was initially implemented by USDA under existing authorities, and later supplemented with funding provided in the FY2003 omnibus appropriations act (P.L. 108-7).

Dairy Indemnification Program authorizes USDA to make indemnification payments to dairy producers who are forced to move their products from the commercial markets for some reason beyond their control.

Emergency Conservation Program (ECP) provides funds to farmers and ranchers for sharing the cost of rehabilitating farmland damaged by natural disasters, and for carrying out water conservation measures during severe drought. It is permanently authorized by Title IV of the Agricultural Credit Act of 1978 (P.L. 95-334), subject to annual appropriations.

Animal Health

Johne's Disease Control Program helps dairy farmers cope with Johne's disease, a contagious and usually fatal disease affecting dairy cows. The 2006 National Voluntary Johne's Control Program was funded at $13.2 million to run testing programs in 43 states.

New Directions for Dairy Policy

Congress has been responsive to the needs of dairy producers in the past, but the time has come to take a closer look at ways Congress can help the entire dairy industry by validating programs that address the needs of today's dairy industry instead of those from a bygone era.

In order to seize opportunities here and abroad, we need Congress to update and improve our dairy policies with small, meaningful steps to put us on the right track to future success. As we look to the future, there is enormous potential for U.S. dairy producers and processors. The next Farm Bill provides an opportunity for Congress to begin this transition. From our perspective, this can best be accomplished by:

- Initiating a transition from our current set of support programs to a single, national safety net for dairy farmers that provides critical assistance when needed, yet minimizes market interference, is fiscally responsible and complies with our trade goals and obligations;
- Creating a more level playing field for all producers and processors to compete fairly and equitably in today's volatile dairy markets by providing permanent authority for forward contracting for Class II, III & IV milk;
- Providing assistance for farm investments that will help the environment and contribute to responsible land conservation; and,
- Making the federal milk marketing order process more flexible and responsive.

Mr. Chairman and members of the Committee, the dairy processing industry is committed to working toward a policy environment that allows our U.S. dairy industry to prosper at all levels and we stand ready to provide any input and assistance that would be helpful to achieve success.

Thank you.